

Health Reform's Savings Myth

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"Health-care reform is entitlement reform" has become a mantra of the Obama administration. The idea is that Congress can add a massive health-care program this year -- covering the uninsured -- and use the same measures that pay for the health reform to fix the broader budget problems. If that sounds too good to be true, there's a reason.

Expanding insurance to cover the 46 million Americans who are uninsured would probably cost more than \$100 billion a year -- more than the federal government spends on education, training, employment and social services combined. It is an immense undertaking at a time when the budget is under terrible strain. So it's no surprise that Democrats and the Obama administration do not want to portray it simply as another big entitlement program.

Some argue that universal coverage would decrease costs by expanding the risk pool (bringing healthy young people into the system) and by decreasing emergency room costs, because more people would get care before their illnesses become acute. There's truth to both, but the savings are vastly outweighed by the costs of treating so many people who today get little or no care. Expanding insurance coverage would increase health-care spending by those who acquire insurance and add to overall health cost inflation.

Well, then, perhaps expanding coverage can be justified as the necessary "sweetener" in a package of tough measures to control costs? It's true that Congress doesn't much like all-pain-and-no-gain policies. But the administration's proposal, even before Congress gets to work, is to spend \$100 billion more on coverage while finding cost-saving measures worth only about a third as much. Another third would be paid for by tax increases. The last third, so far, isn't paid for at all. That's three times as much sweetener as medicine, in other words -- and Congress will be tempted to jettison some of the savings and all of the tax increases.

You doubt Congress would pass a bill that isn't fully paid for and that would make the fiscal situation drastically worse? Just remember the Medicare prescription drug bill, for which Congress and the Bush administration teamed up to add a huge new entitlement without fixing any existing problems in the Medicare system. Even if Congress paid fully for this latest entitlement, it seems exceedingly unlikely that it would do much to improve the longer-term deficit situation. Health-care costs grow at a faster rate than the economy by two percentage points per year. So it's true that if we could get them back in line with overall economic growth, government spending on health care would be so much lower than projected over time that long-term budget woes would ease.

Unfortunately, though many ideas are tossed around, no one really knows how to slow that cost growth. Health information technology, better disease management and preventive care are all good ideas that would almost certainly improve the quality of health care, but they are less certain to slow cost growth. In fact, the Congressional Budget Office has pointed out that each of these would either drive up government costs or have to be paired with other policy changes to create any federal savings.

Two cost-saving measures hold the most promise. First, what's known as comparative effectiveness research, which tracks what works and what doesn't, would also require outside boards directing doctors and hospitals about what procedures they could and couldn't use. Policymakers have tended to dance around the second part of the equation. Second, eliminating the tax break for employer-provided health care could generate a good deal of savings and help bring down health-care inflation. But, again, there's a political challenge; President Obama would have to admit that Sen. John McCain, his GOP opponent in the presidential campaign, was right on this idea.

Here is the bottom line: Most health-care inflation is the result of new technologies. Bending the curve enough to help balance the budget means walking away from some of the new technologies and devices that people want when they are sick. It also means improving consumer cost-consciousness through insurance reform and higher deductibles and co-payments. For most of us, that means paying more, not less. Even then, it is unlikely to be enough to get costs under control.

Health-care reform will have to be an incremental process: Try some things now, and try more in a few years. Maybe we will choose to spend a good deal more on health care, but if so, even more will have to be done to fix the rest of the budget. As much as we might wish it were so, creating an expensive plan to expand coverage, with some measures to get us started on bringing down costs, will not be sufficient to improve America's fiscal health anytime soon -- let alone fix the federal budget.